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ABSTRACT

This study guide is intended for use with the separately available entrepreneurship education text "How To Set Up Your Own Business." The guide includes student exercises that have been designed to accompany chapters dealing with the following topics: determining whether or not to set up a small business, doing market research, forecasting sales, selecting a site, financing a small business, understanding the different legal needs of different types of firms, getting a small business organized, advertising, developing and conducting effective publicity and public relations campaigns, purchasing the correct supplies from the correct suppliers, bookkeeping, accounting, establishing sound business policies, selling, assessing insurance needs, improving oneself, managing personnel, developing a business plan, and avoiding the pitfalls facing owners of small businesses and staying on the road to success. (MN)

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HOW TO SET UP YOUR OWN SMALL BUSINESS
STUDY GUIDE

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CHAPTER ONE STUDY GUIDE

In order to properly select the business that's right for you, it will be necessary for you to complete the following questions regarding your personal profile, experience, aptitude, and personal and business goals.

Complete the worksheet in accordance with the instructions of the Lesson 1 text.

1. What "businesses" or enterprises were you involved in during your early childhood and teens?_____

   _____

2. Were one or both of your parents self-employed? Explain. _____

   _____

3. Have you ever been fired from a job because of conflict with or competition with your boss or upper management? Explain.

   _____

4. Where do you fit in order of offspring in your family? Oldest? Youngest? In between?

   _____

5. How would you rate yourself on the following entrepreneurial traits?

   a. Desire to make money ___strong ___medium ___not important

   b. Hard worker ___very ___average ___I just get by

   c. Special talent ___yes ___no

   d. Success oriented ___very ___average ___don't care

   e. Sociable ___very ___average ___I just fit in

   f. Organized ___very ___average ___I never know where anything is

   g. Competitive ___very ___average ___Winning isn't important

6. Why do you want to go into business? List your reasons below. Include both "practical", measurable reasons and personal reasons.

7. In what ways do you expect your new business to change your life during the first year? List your expectations.

8. How strong is your desire to succeed? Describe what you feel:

9. How strong is your diligence? What are some examples of how you've displayed diligence in the past?

10. How good are you with details? What are some ways you keep yourself organized?

11. How **disciplined** are you? What are some examples of difficult tasks you've pushed yourself to do?

_____

_____

12. How **determined** are you? What are some examples of pushing on when you've found the going tough?

_____

_____

13. Do you have success-oriented habits? Check yourself on the following:

a. Sleeping habits

___early to bed, early to rise ___late to bed, late to rise

___early to bed, late to rise

b. Physical condition

___excellent ___average ___poor

c. Personal finances, checking accounts, etc.

___always accurate, current ___often behind, overdrawn

___a sorry mess

d. Personal appearance

___always look sharp ___always casual

___dress up only when I have to

e. Punctuality

___always on time ___usually late

___win a few, lose a few

f. Keep appointments, promises

___always ___most of the time ___I'm undependable

g. Friendliness

___I love people ___I tolerate people

___Prefer to be alone

h. Work ethic

___I'm a steady hard worker ___I need to be pushed

14. What are your qualifications? Fill in the "Resume" questionnaire below.

What skills do you have?_____

_____

_____

_____

What experience have you acquired that could be applied to your own business?

_____

_____

_____

What are your three most satisfying accomplishments?

_____

_____

_____

What are your hobbies and interests?

_____

_____

What knowledge/expertise have you acquired from schools, seminars, and special training?

_____

_____

_____

15. What are your business goals and personal goals? List your top ten (in both categories) below.

BUSINESS GOALS: (Typically concern independence, money, location, size of business, travel, people relations, status.)

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

PERSONAL GOALS: (Typically concern self-realization, creative expression, family, spirituality, physical health, self-esteem.)

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

16. How many business ideas did you come up with? List them below. (Try to select at least a couple from each of the seven sources listed on pages 16-17 in Lesson 1.)

_____ _____

_____ _____

_____ _____

_____ _____

_____ _____

_____ _____

_____ _____

_____ _____

_____ _____

_____ _____

_____ _____

_____ _____

17. What are your top six priority business goals? List them below.

BUSINESS GOALS: 1. _____

2. _____

3. _____

4. _____

5. _____

6. _____

18. What are your top six priority personal goals? List them below.

PERSONAL GOALS:

1. _____
2. _____
3. _____
4. _____
5. _____
6. _____

19. What five business candidates have you selected? List them below.

1. _____
2. _____
3. _____
4. _____
5. _____

20. How do your top five candidates stack up against the three questions posed in Lesson 1, page 21? List them below and check yes or no.

		#1	#2	#3	#4	#5
A.	Satisfies most of my wants and desires					
B.	I have, or can develop or hire, the attributes and capabilities required for success.					
C.	Current condition/outlook is favorable.					

21. After completing your BUSINESS ANALYSIS CHART, giving point values to the specific businesses you're considering, what business have you selected? Enter it below and list five important reasons why you chose this one.

MY BUSINESS CHOICE IS: _____

MY REASONS FOR CHOOSING THIS ONE ARE:

1. _____

2. _____

3. _____

4. _____

5. _____

CHAPTER TWO STUDY GUIDE

1. Write below at least 10 questions about your business that you would like to have answers to:

a. _____

b. _____

c. _____

d. _____

e. _____

f. _____

g. _____

f. _____

g. _____

h. _____

i. _____

j. _____

2. Rank below the topics you need information about (#1 = the most important):

_____Size of market

_____Characteristics of your customers

_____Income of your customers

_____Present sales volume of your competitors

_____Information about long-term trends in your industry

3. Write questions you have about the most important topics you ranked above.

_____

_____

_____

4. List below the information you need to get in order to answer the questions in number 3 above.

_____

_____

_____

_____

5. What information do you have at hand that can help answer your questions, i.e. customer lists, coupons, etc.

_____

_____

_____

_____

_____

6. Keeping your answers to number 4 in mind, what other sources of information do you plan to use?

_____

_____

_____

_____

7. What information do you need that a survey could help you get?

_____

_____

_____

_____

_____

8. Think about your answers to number 7 and list below 5 questions you could use on a survey to find out more about your customers or potential customers. For now, try to avoid questions that just give you a Yes or No answer -- you're looking for specifics. Be sure to test the questionnaire before you use it for your market research.

_____

_____

_____

_____

_____

9. What group of people do you plan to survey?

_____

10. What method of survey do you plan to use?_____

Why?

_____

_____

_____

_____

_____

_____

CHAPTER THREE STUDY GUIDE

1. What is the size (geographically and by population) of your market area?

   _____

2. How many prospective customers are in your market area? (A prospective customer is a person who is likely to make at least one purchase in the next 12 months.)

   _____

3. How many customers will actually buy from you?_____

4. How much will they spend with you?_____

5. What seasonal fluctuations or other variables must be taken into consideration when planning the level of your sales during the next 12 months?

   _____

   _____

   _____

   _____

6. What are the four purposes of a budget?

   _____

   _____

   _____

   _____

7. What are the titles of the three columns on a forecast (projection)?

   _____

   _____

   _____

8. How often should you review your forecast?

_____weekly
_____monthly
_____once a year
_____as often as necessary

9. Construct a spread sheet for your business, imaginary or otherwise, that includes:

a) Sales forecast
b) variable expenses
c) fixed expenses
d) net profit and loss for each month
e) cumulative cash flow

(Attach your spread sheet to this page when submitting for review and credit.)

CHAPTER FOUR STUDY GUIDE

To properly COMPLETE THIS WORKSHEET, it will be necessary for you to obtain a map of your community so that you will be able to mark the location of your competition when you come to that section.

You may obtain a map from either your local city or town hall, a map store, a service station, or you may draw one if no map exists.

This worksheet is designed to be both a summary of WHERE TO LOCATE YOUR BUSINESS, and a practical guide to your own location search. Complete it in accordance with the instructions of the chapter.

1. What business are you in, or planning to enter?

   _____

2. Why do (or will) your customers buy from you instead of the competition?

   _____

   _____

   _____

3. Why is the location of your business important to you?

   _____

   _____

   _____

4. What are the customers' needs that you must meet in order to keep their business?

   _____

   _____

   _____

   _____

5. Where is the best place to start your SITE LOCATION SEARCH?

_____

6. List six places where you can get population information about your community:

a. _____

b. _____

c. _____

d. _____

e. _____

f. _____

7. List FOUR kinds of CULTURAL CHARACTERISTICS of a population.

a. _____

b. _____

c. _____

d. _____

8. What business trends are occurring in the community in which you are considering locating your business? Please check where applicable.

a. Population: ____growing ____declining ____stable

b. Progressiveness of the community:

Active _____ Inactive _____

_____Promotes business activity
_____Receptive to change
_____Open evenings (retailers)
_____Open Sundays (retailers)

9. Using your map, place an "X" where your competitors are located. Circle the spot where you feel your best location is. If you have more than one location, you may circle more than one.

10. List the names and addresses of each of your present and future competitors.

_____
_____
_____
_____
_____

11. Rank the following factors as to their importance to your business. The number "1" will indicate the most important, "9" being the least important.

____ Public transportation
____ Parking availability
____ Distance from residential areas
____ Distance from business areas
____ Traffic congestion
____ Side of the street to locate on
____ Width of street
____ Location on block
____ Appropriate business neighbors

12. Will you be able to make a TRAFFIC COUNT at YOUR LOCATION or the LOCATION YOU ARE THINKING ABOUT?

____ yes ____ no

13. List at least FIVE QUESTIONS you should answer in selecting a building for your location.

a._____

b._____

c._____

d._____

e._____

CHAPTER FIVE STUDY GUIDE

1. In Frank's Snow Plowing and Lawn Care Service, which month is the lowest point of Frank's cash flow?

   _____3rd month _____7th month _____10th month

2. How much money was Frank down after his 5th month of doing business?

   $_____

3. How much money did Frank need to get his business started?

   _____$7,500 _____$11,250 _____$13,000

4. What are the three stages of financing that reflect the life cycle of a business?

   _____

   _____

   _____

5. Debt Financing is another way of defining the word _____.

6. List 8 different sources of loan money. For example: Family or Relatives. (List eight more)

   _____

   _____

   _____

   _____

7. In preparing a Loan Proposal and submitting it to your Banker, it is preferable to submit a TYPED proposal.

   _____true _____false

8. What is the total amount of money Joe Smith requested in his LOAN PROPOSAL?

_____$4,500 _____$12,000 _____$20,000 _____$32,000

9. In the SPECIFIC USE OF FUNDS section of Smith's Loan Proposal, how much money was requested for each of the following:

_____ Payroll

_____ Insurance

_____ Office Supplies

_____ Business Supplies

10. In the section SOURCE OF FUNDS TO BE INVESTED IN BUSINESS IN ADDITION TO THE BANK LOAN, how much money was actually going to be put into the business by Joe and Doris Smith?

_____$5,000 _____$9,000 _____$14,000

11. What is the last section of the Loan Proposal called?

_____

20

CHAPTER SIX STUDY GUIDE

Before you start, one word of caution. Some of the questions are not designed to yield clear-cut, objective answers, but are designed to make you think over the issue once again. They are written to help you develop your personal solutions and rationale.

1. What is the best way to find a lawyer suiting your needs?

_____

_____

_____

2. What are your legal rights as a lawyer's client?

_____

_____

_____

_____

3. What are your lawyer's ethical duties?

_____

_____

_____

4. Is a lawyer immune from being sued by his/her client?

_____

5. How should you handle disputes and disagreements with your lawyer?

_____

_____

_____

6. What are some of the psychological factors important in a lawyer-client relationship?

_____

_____

7. What are the three basic forms of business discussed in this lesson?

_____

8. What is the main difference between a public and a closed corporation?

_____

_____

_____

_____

9. What is the difference between a limited and a general partnership?

_____

_____

_____

10. In what area of business is a limited partnership especially feasible?

_____

11. What is the main advantage of an "S" corporation?

_____

_____

12. What are the main advantages of a sole proprietorship?

13. What are its main disadvantages?

14. To what extent are partnerships similar to sole proprietorship?

15. What do you personally consider to be the advantages of a partnership over a sole proprietorship?

16. What are the main advantages of forming a corporation?

17. In what instances may an "S" corporation arrangement be to your disadvantage?

_____

_____

_____

18. Why should a lawyer/accountant assist you in selecting the right form for your business?

_____

_____

_____

19. Is a single ownership corporation possible? _____

20. What is fiduciary relationship? _____

_____

_____

21. What is the legal definition of an assumed name?

_____

22. What are the basic steps involved in filing an assumed name?

_____

_____

_____

_____

23. To what extent is a business name important for the success of your enterprise?

_____

_____

24. How can you find out whether or not a certain name has popular appeal?

_____

25. How and to what extent can you disguise that your business is incorporated?

_____

_____

26. For how long is the filing of an assumed name valid?

_____

27. What are the types of insurance for an employee resulting from his employment?

_____

_____

28. What types/forms of insurance are mandated by law?

_____

_____

29. What types/forms of insurance are at your discretion as an employer?

_____

_____

30. In what respect (to what extent) does the law discriminate between minors and adults?

_____

_____

_____

31. The term "discrimination" applies to what types of minorities?

_____

32. To what records/documents is an employee entitled upon leaving your company?

_____

_____

33. How do you have to handle tax withholdings from wages and salaries?

_____

34. Is state law usually more or less stringent than federal law? _____

35. What should be the role of your lawyer in preparing a purchase contract?

_____

_____

_____

36. What is the difference between buying the corporation and buying the assets?

_____

_____

_____

_____

37. Which of the above options is usually the better deal?

_____

38. What are some of the concessions you have to make when the seller finances the deal?

_____

_____

39. What is the legal definition of a contingency clause?

_____

_____

40. When and what extent is such a clause important?

_____

_____

_____

_____

41. When would you need adjustments to the purchase price?

_____

_____

_____

42. Why would it be desirable to exclude some items from the purchase agreement?

_____

_____

43. Is there a specific number of closing documents to look for? _____

44. What is the definition of a closing document?

_____

_____

_____

45. Generally, what is the bargaining power situation between you and the lessor?

_____

46. What is a percentage lease? _____

_____

47. What are the drawbacks of a percentage lease?

_____

_____

48. When might a percentage lease be desirable?

_____

_____

49. What is a flat lease? _____

_____

50. What is a net lease? _____

_____

51. What is an escalator clause? _____

_____

52. Why should the amount of periodic rent adjustments be agreed upon in advance?

_____

_____

53. How should you exercise options to renew a lease?

_____

_____

54. What are some of the crucial points to watch out for in a shopping center lease?

_____

_____

_____

55. What is the prevailing legal attitude toward tenants' rights?

_____

_____

56. Why is a hypothetical "ideal" lease a good model to work with?

_____

_____

_____

CHAPTER SEVEN STUDY GUIDE

Completing this worksheet will be, in itself, an exercise in getting organized. Complete a few questions at a time, change your answers as you find your plans going in different directions, and then highlight those to which you are firmly committed.

1. **Choosing a Name**

   List five names you are considering for your business. Rate them on a scale of 1 to 4 (Excellent, Good, Fair, Poor) as to Appropriate, Length, Descriptive and Personal Choice.

Name	Approp.	Desc.	Lgth.	P.C.	Total
_____	____	____	____	____	____
_____	____	____	____	____	____
_____	____	____	____	____	____
_____	____	____	____	____	____
_____	____	____	____	____	____

2. **Office Equipment**

   List the equipment you will need and the delivery dates. Check whether you will lease or buy.

Equipment	Date	Lease	Buy
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

Home Office

After you have answered these questions, ask your family to complete the comment section.

How many square feet are available? (Measure) _____

Is remodeling necessary? _____

Cost: _____

Is redecorating necessary? _____

Cost: _____

Are safety features necessary? _____

Cost: _____

Compute tax deductions:

Divide total costs of your residential utilities, maintenance, improvements and telephones by percentage office space you will use in the home. Example:

Total s.f. of office 300
Total s.f. of residence 3000 = 10% of costs _____

List necessary licenses, permits and coverage for home office:

_____
_____
_____
_____

Family Comments:

_____
_____
_____
_____
_____
_____
_____
_____
_____
_____

4. **Communication Equipment and Service**

Number of Lines _____ **Number of Phones** _____

Call Forwarding _____ **Call Waiting** _____

Recording Machine _____ **Answering Service** _____

Beeper _____

Long Distance:

List systems serving your area:

_____ _____

_____ _____

_____ _____

Incoming 800 number: Yes_____ No_____

On a separate sheet of paper, compare costs of these systems.

5. **Signs**

Complete the section that is appropriate to your business.

Home Office

Do you need a sign? Yes_____ No_____

List types and sizes:

Type	Size
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

Office Building

Exterior signs in place? Yes_____ No_____

Do you need to negotiate for additional signs Yes_____ No_____

Cost _____

Retail Signs

List exterior signs:

Type	Size	Cost

List interior signs:

6. **Decorating**

Complete the section that is appropriate to your business.

Home Office

List items on hand:

List items to purchase:

Office Building

List items needed (excluding equipment) and check New, Used, Lease, or Buy. Note: You can lease some art.

Item	New	Used	Lease	Buy	Cost
_____	____	____	____	____	____
_____	____	____	____	____	____
_____	____	____	____	____	____
_____	____	____	____	____	____
_____	____	____	____	____	____
_____	____	____	____	____	____
_____	____	____	____	____	____
_____	____	____	____	____	____

Retail Business

List items needed (excluding equipment) and check New, Used, Lease, or Buy.

Item	New	Used	Lease	Buy	Cost
_____	____	____	____	____	____
_____	____	____	____	____	____
_____	____	____	____	____	____
_____	____	____	____	____	____
_____	____	____	____	____	____
_____	____	____	____	____	____
_____	____	____	____	____	____
_____	____	____	____	____	____

7. **Cash**

List equipment needed:	Yes	No	Cost
Cash box and adding machine?	_____	_____	____
Cash register? **Type?**_____	_____	_____	____
Safe?	_____	_____	____
Personnel			
Bonded?	_____	_____	_____
Number of employees in cash area?	_____		

8. **Parking**

List Restrictions:

_____ _____
_____ _____
_____ _____

Reserved Spaces? _____ #

Handicapped Spaces? _____ #

9. **Landscaping**

	Yes	No	Cost
Complete?	_____	_____	_____
Items needed:			
Shrubs?	_____	_____	_____
Trees?	_____	_____	_____
Ground Cover? (Grass, rocks, etc.)	_____	_____	_____
Fencing	_____	_____	_____

Other

_____ _____
_____ _____
_____ _____
_____ _____

10. **Hours of Operation**

Definite:

			Total
Days_____	From_____	To_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
Flexible:			_____
	Total Hours:		_____

11. **Special Arrangements for Children:**

_____

_____

_____

_____

_____

12. **Filing**

List equipment and supplies needed:	Yes	No	Cost
4-drawer cabinet	_____	_____	_____
Hanging folders (Pendaflex) Quantity_____	_____	_____	_____
Manila Folders Quantity_____	_____	_____	_____
3-ring binders Quantity_____	_____	_____	_____
Card Files Quantity_____	_____	_____	_____
Follow-up file	_____	_____	_____
In & Out baskets Quantity_____	_____	_____	_____

Other:

_____ _____
_____ _____
_____ _____
_____ _____
_____ _____
_____ _____
_____ _____

Obtain an office supply catalog from one or two vendors. Leaf through for suggestions.

13. **Shipping and Receiving**

List choices of vendors for shipping:

Local	_____	_____	_____
Long Distance (Surface)	_____	_____	_____
Long Distance (Air)	_____	_____	_____

Calculate total space available for receiving: _____

Calculate total shelving space: _____

Number of employees available to receive? _____

14. **Establishing Procedures**

In the space below, draw your own organization chart, leaving room for additional departments and employees as you grow.

List procedures that need to be posted, such as hours, schedules, emergencies, etc.

_____ _____

_____ _____

_____ _____

_____ _____

_____ _____

15. Review possible problems on pages 29 and 30. After discussions with friends, competitors, suppliers, and family, list additional ones that may be common to your business.

_____

_____

_____

_____

_____

_____

_____

CHAPTER EIGHT STUDY GUIDE

1. What is advertising? _____

_____

2. List five things advertising can do for your business.

_____

_____

_____

_____

3. What are the five basic steps in planning an advertising budget and media plan?

1. _____

2. _____

3. _____

4. _____

5. _____

4. Name one or more advertising media you plan to use, and the reasons you selected each:

Media	Reasons
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

5. You can use any business name you desire for your new business providing you are the sole owner of the business.

   True_____ False_____

6. The major components of any print advertisement include: headline, copy, illustration and signature.

   True_____ False_____

7. A good formula to use when preparing copy for your ad is AIDCA. What does this stand for?

   A_____

   I_____

   D_____

   C_____

   A_____

8. Your illustration could be either a photograph or an artist's drawing. Which type would you use, and why?

   Type: _____

   Reason: _____

   _____

   _____

   _____

9. What are the two basic costs for any advertisement?

   _____and_____

10. What is the most meaningful measurement of one ad's effectiveness?

    _____

11. An advertising agency should never be used by a small business owner or operator because the service is too expensive.

True_____ False_____

12. Using the layout sheet on the next page, prepare a LAYOUT for a Grand Opening advertisement for your new business, or the business you are now in. Be sure to include:

a. Actual headline

b. Location of illustration(s)

c. Location of copy (if appropriate, include actual copy for demonstrations, prizes, free drawings, food, etc.)

d. Actual introductory offers and special pricing, if applicable.

e. Your signature, including location, hours, logo (if known)

Remember, you are not expected to be a skilled artist. Your layout may be as rough as you want it to be.

CHAPTER NINE STUDY GUIDE

1. Is it OK to give your publicity to an advertising salesman to place with his medium? _____ Why? _____

_____

2. What is the one fundamental difference between advertising and public relations?

_____

_____

3. How else does publicity differ from advertising?

_____

_____

_____

_____

4. In which ways does publicity supplement and enhance the effectiveness of advertising?

_____

_____

_____

5. What are the basic characteristics of publicity that make it acceptable to the press?

_____

_____

_____

6. Why is a preventive PR program better than a curative PR program?

_____

_____

_____

7. Write down three objectives for a public relations program for your business.

_____

_____

_____

a. What are the "messages" -- the positive statements-- about your business that should be conveyed to the public in publicity?

_____

_____

_____

b. What are the other elements, besides objectives, in a PR plan?

_____

_____

8. What makes a publicity topic newsworthy?

_____

_____

_____

9. Name two practices that you can follow in finding publicity topics.

_____

_____

_____

10. What are the "generic" topics relevant to your business --topics of GENERAL public interest?

_____

_____

_____

11. What are the alternatives to actually writing a news release yourself?

_____

_____

12. How can you get the press to write publicity releases for you?

_____

_____

_____

13. Name at least five strong benefits of public relations and publicity.

_____

_____

_____

_____

14. Select three publicity or public relations projects, from those referred to in this lesson, that are appropriate for your business.

_____

_____

_____

15. Write a news release announcing the grand opening of your place of business. Keep in mind that you are addressing a general audience. Use the space provided on the next page to write the news release using standard layout.

    a. Take the same information and write a radio script that is the proper length for a 20-second spot. Keep in mind the differences in writing style between writing for a print medium and for a medium that is heard. Use the space provided on the next page for your script.

NEWS RELEASE

20-SECOND SPOT-RADIO

48

CHAPTER TEN STUDY GUIDE

1. What is the generally accepted definition of "PURCHASING"?

_____

_____

_____

2. What are the two main types of buying you will do for your business?

a. _____

b. _____

3. What is a Trade Association?

_____

_____

_____

4. What are four printed sources you can use to find suppliers?

a. _____

b. _____

c. _____

d. _____

5. How can a trade show be important in your business?

_____

_____

_____

6. What are the four printed registers suggested for locating suppliers?

a. _____

b. _____

c. _____

d. _____

7. List several "supply" items you will need to get started in your business.

_____ _____

_____ _____

_____ _____

_____ _____

_____ _____

8. Why are business cards considered to be one of the most important supply items you will buy?

_____

_____

9. *What is Point-of-Purchase Material?* _____

_____

_____

List four or five examples:

_____ _____

_____ _____

_____ _____

10. List five possible sources for buying office supplies.

a. _____

b. _____

c. _____

d. _____

e. _____

f. _____

11. What is the argument for having one supplier for your merchandise?

_____

_____

_____

12. What is the most important consideration when making a buying decision for a manufacturing business? Why?

_____

_____

13. *List and define each of the four kinds of discounts you may be offered by a vendor.*

a. _____

_____

_____

b. _____

c. _____

d. _____

_____

14. When negotiating with a supplier, why would you want to meet in your office rather than theirs?

_____

_____

15. *What are two possible ways of having good quality control?*

*a.*_____

*b.*_____

16. How can you protect yourself from unexpected fluctuations in the price of the goods you have to buy?

_____

_____

17. *What is the purpose for having an inventory control system?*

_____

_____

18. *What are the four things you must know in order to set a price on your goods or services?*

_____

_____

_____

_____

_____

19. What is MARKUP?_____

_____

20. What is MARKDOWN? _____

_____

CHAPTER ELEVEN STUDY GUIDE

1. Identify the four functions of accounting and briefly describe the significance of each.

a. _____

_____

b. _____

_____

c. _____

_____

d. _____

_____

2. If at the end of the accounting period #1, XYZ Co. has Assets of $85,000 and Liabilities of $37,500, what is the Owner's Equity at this point in time?

_____

3. If at the end of the accounting period #2, XYZ Co. has revenues of $33,400 and Expenses of $44,500, what is the Net Income for this accounting period?

_____

4. Briefly describe what has happened to XYZ Co.'s Owner's Equity at the end of accounting period #2.

_____

5. If Ed had put the $350 in a separate checking account at the beginning, what would the cash balance be at this point in time?

_____

6. If Ed had purchased the cutters and bits on credit from Smith Machine Tool, how would that have affected the Balance Sheet?

_____

_____

7. *During the second month (June) Ed bought $600 worth of steel, bolts, and rivets. Since he had only received an additional $200 from the previous sales, what funds did he use to pay for these additional purchases?*

_____

8. *If one of the units sold in May were returned, what entries would be made in which journals?*

_____

9. *Before you peek at the next page, can you prepare the Trial Balance Worksheet?*

TRIAL BALANCE WORKSHEET

Account Title	*Opening*		*Adjustments*		*Closing*	
	Debit	*Credit*	*Debit*	*Credit*	*Debit*	*Credit*
Net Income						
Total						

10. What is Ed's Net Income for June?_____

11. What is the change in Owner's Equity as result of June's activities?

_____

12. What is Ed's cash balance at this point in time?_____

13. With the ideas discussed above, compare and graph Accounts receivable as a function of Total Assets.

May:_____

June:_____

*What does it tell you at this point in time?*_____

_____

*How important is it? Why?*_____

_____

_____

14. *In May, Ed worked 15 hours producing Widgets, five hours getting supplies and tools, and another 10 hours preparing invoices. Compare and analyze his usage of time. What is it 'costing' Ed for this administrative work? Comment.*

_____

_____

15. *If Ed assigned a value of $30 per hour to his management efforts and spent 10 hours per month in these activities, what would the company profits have been each month?*

*May:*_____ June:_____

16. Why should Ed go through all this work?

_____

_____

17. *Activity in Revenue and Expense accounts are normally posted as* _____ and_____ , respectively.

18. In the Balance Sheet, Asset accounts are normally carried as _____, while Liabilities and Owner's Equity are shown as_____.

19. Depreciation represents a periodic expense to compensate the owner for wear and tear of an _____. It is posted as a_____ in the Operating Statement, and as a _____ in the Balance Sheet.

20. We treat a major purchase, one which is not fully consumed during the accounting period, as a:

_____

CHAPTER TWELVE STUDY GUIDE

1. As a part of Ed's November 10th deal, he purchased a drill press for $5,000. Prepare an asset record for the drill press as if he had also paid $500 for shipping and installation. (Ignore details of the manufacturer, model, etc.)

DESCRIPTION:
Purchase date:
DEP'N SCHED:

DESCRIPTION	*DR*	*CR*	*BOOK VALUE*
Purchase price			
Shipping & Inst.			
Total cost			
Less 1/2 Inv. Tax CR			
Depreciable Basis			
1986 Accel Depn @ 15%			

2. *Complete the following*

_____ _____ credits and_____ _____ deductions are two methods available to the entrepreneur for the acceleration of tax benefits.

3. Complete the following:

Before the entrepreneur makes a decision regarding the purchase or disposition of capital assets, it's well to consider the_____ _____ of the proposed action.

4. Complete the following:

When selling a capital asset, the entrepreneur may have to _____ part or all of the _____ _____ or_____, depending on (a) whether or not it was sold for more than book value, and (b) the length of time the asset was held.

5. Rosalie Retailer operates a novelty shop known as "Rosie's Goodies". She is the sole proprietor, has no employees, and is a cash-basis taxpayer. She is not otherwise employed.

Her 12/31/85 Balance Sheet showed the following:

Cash	$6,789
Inventory	1,234
Furniture & Fixtures	3,456
Accumulated Depreciation	(517)
Owner's Equity	8,617
Business Loan	2,345

During 1986 her gross sales were $76,543 with returns of $123. She purchased $7,700 in inventory, and had $1,345 remaining at the end of the year. She made total payments on her loan of $1,400, of which 413 was interest. She took $43,500 in draws, and accelerated second-year depreciation on the furniture and fixtures (five-year property).

Her other 1986 expenses were:

Store rent	$7,890	Utilities	$654
Legal & Accounting	1,321	Insurance	432
Phone	875	Repairs &	
Office supplies	567	Maintenance	234
Advertising	2,109		

Prepare:

a. Balance Sheet as of 12/31/85

b. Operating Statement for 1986

c. Balance Sheet as of 12/31/86

d. Form 4562 for 1986

e. Schedule C for 1986

f. Schedule SE for 1986

6. Complete the following:

_____, _____ record keeping provides the best single vehicle for the completion of a responsible tax return.

Answer 5a

ROSIE'S GOODIES

BALANCE SHEET AS OF 12/31/85

Assets	*Liabilities*
Total Assets	*Total Liab. & Owner's Equity*

Answer 5b

ROSIE'S GOODIES

OPERATING STATEMENT FOR YEAR ENDING 1986

Revenues:

Expenses:

Total expenses

NET PROFIT

Answer 5c

ROSIE'S GOODIES

BALANCE SHEET AS OF 12/31/86

Assets	***Liabilities***
Total assets	*Total liab.& eq.*

Form **4562**

Department of the Treasury
Internal Revenue Service (O)

Depreciation and Amortization

▶ See separate instructions.
▶ Attach this form to your return.

OMB No. 1545-0172

1986

Attachment Sequence No. **67**

Name(s) as shown on return | Identifying number

Business or activity to which this form relates

Part I **Depreciation** (Do not use this part for automobiles, certain other vehicles, computers, and property used for entertainment, recreation, or amusement. Instead, use Part III.)
See instructions under Items You Should Note for new rules for certain assets placed in service after July 31, 1986.

Section A.—Election To Expense Recovery Property (Section 179)

(a) Class of property	(b) Cost	(c) Expense deduction
1		
2 Listed property—Enter total from Part III, Section A, column (h)		
3 Total (see instructions for limitations). (Partnerships or S corporations—see the Schedule K and Schedule K-1 Instructions of Form 1065 or 1120S)		

Section B.—Depreciation of Recovery Property

(a) Class of property	(b) Date placed in service	(c) Basis for depreciation (Business use only—see instructions)	(d) Recovery period	(e) Method of figuring depreciation	(f) Deduction
4 Accelerated Cost Recovery System (ACRS) (see instructions): *For assets placed in service* **ONLY** *during tax year beginning in 1986*					
a 3-year property					
b 5-year property					
c 10-year property					
d 15-year public utility property					
e Low-income housing					
f 15-year real property					
g 18-year real property					
h 19-year real property					
5 Listed property—Enter total from Part III, Section A, column (g)					
6 ACRS deduction for assets placed in service prior to 1986 (see instructions)					

Section C.—Depreciation of Nonrecovery Property

7 Property subject to section 168(e)(2) election (see instructions)	
8 Other depreciation (see instructions)	

Section D.—Summary

9 Depreciation from Form 4562A (see instructions)	
10 Total (add deductions on lines 3 through 9). Enter here and on the Depreciation line of your return (Partnerships and S corporations—Do NOT include any amounts entered on line 3.)	

Part II **Amortization**

(a) Description of property	(b) Date acquired	(c) Cost or other basis	(d) Code section	(e) Amortization period or percentage	(f) Amortization for this year
1 Amortization for property placed in service **only** during tax year beginning in 1986					
2 Amortization for property placed in service prior to 1986					
3 Total. Enter here and on Other Deductions or Other Expenses line of your return					

Part III **Automobiles, Certain Other Vehicles, Computers, and Property Used for Entertainment, Recreation, or Amusement (Listed Property).**

If you are using the standard mileage rate or deducting vehicle lease expense, complete columns (a) through (d) of Section A, all of Section B, and Section C if applicable.

Section A.—Depreciation (If automobiles and other listed property placed in service after June 18, 1984, are used 50% or less in a trade or business, the Section 179 deduction is not allowed and depreciation must be taken using the straight line method over 5 years. For other limitations, see instructions.)

Do you have evidence to support the business use claimed? ☐ Yes ☐ No If yes, is the evidence written? ☐ Yes ☐ No

(a) Type of property (list vehicles first)	(b) Date placed in service	(c) Business use percentage (%)	(d) Cost or other basis (see instructions for leased property)	(e) Basis for depreciation (Business use only—see instructions)	(f) Depreciation method and recovery period	(g) Depreciation deduction	(h) Section 179 expense

Total (Enter here and on line 2, page 1.) . . . . . | | | | | | | | |

Total (Enter here and on line 5, page 1.) . . . . . | | | | | | | | |

Section B.—Information Regarding Use of Vehicles

Complete this section as follows, if you deduct expenses for vehicles:

- *Always complete this section for vehicles used by a sole proprietor, partner, or other more than 5% owner or related person.*
- *If you provided vehicles to employees, first answer the questions in Section C to see if you meet an exception to completing this section for those items.*

	Vehicle 1		Vehicle 2		Vehicle 3		Vehicle 4		Vehicle 5		Vehicle 6	
1 Total miles driven during the year . . .												
2 Total business miles driven during the year												
3 Total commuting miles driven during the year . . .												
4 Total other personal (noncommuting) miles driven . . .												
	Yes	**No**	**Yes**	**No**	**Yes**	**No**	**Yes**	**No**	**Yes**	**No**	**Yes**	**No**
5 Was the vehicle available for personal use during off-duty hours? . . .												
6 Was the vehicle used primarily by a more than 5% owner or related person? . . .												
7 Is another vehicle available for personal use? . . .												

Section C.—Questions for Employers Who Provide Vehicles for Use by Employees.

(Answer these questions to determine if you meet an exception to completing Section B. **Note:** *Section B must always be completed for vehicles used by sole proprietors, partners, or other more than 5% owners or related persons.)*

	Yes	**No**
8 Do you maintain a written policy statement that prohibits all personal use of vehicles, including commuting, by your employees? . . .		
9 Do you maintain a written policy statement that prohibits personal use of vehicles, except commuting, by your employees? (See instructions for vehicles used by corporate officers, directors, or 1% or more owners.) . . .		
10 Do you treat all use of vehicles by employees as personal use? . . .		
11 Do you provide more than five vehicles to your employees and retain the information received from your employees concerning the use of the vehicles? . . .		
12 Do you meet the requirements concerning fleet vehicles or qualified automobile demonstration use (see instructions)? **Note:** *If your answer to 8, 9, 10, 11, or 12 is "Yes," you need not complete Section B for the covered vehicles.*		

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SCHEDULE C (Form 1040)

Department of the Treasury Internal Revenue Service (O)

Profit or (Loss) From Business or Profession

(Sole Proprietorship)

Partnerships, Joint Ventures, etc., Must File Form 1065.

▶ **Attach to Form 1040, Form 1041, or Form 1041S.** ▶ **See Instructions for Schedule C (Form 1040).**

OMB No 1545-0074

1986

Attachment Sequence No. **09**

Name of proprietor | Social security number

A Principal business or profession, including product or service (see Instructions) | **B** Principal business code (from page 2) ▶

C Business name and address ▶ | **D** Employer ID number

E Method(s) used to value closing inventory:
(1) ☐ Cost (2) ☐ Lower of cost or market (3) ☐ Other (attach explanation)

F Accounting method: (1) ☐ Cash (2) ☐ Accrual (3) ☐ Other (specify) ▶

	Yes	No
G Was there any change in determining quantities, costs, or valuations between opening and closing inventory? If "Yes," attach explanation.		
H Did you deduct expenses for an office in your home?		

I If this schedule includes a loss, credit, deduction, income, or other tax benefit relating to a tax shelter required to be registered, check here. ▶ ☐
If you check this box, you **MUST** attach **Form 8271**.

Part I Income

1a	Gross receipts or sales	1a	
b	Less: Returns and allowances	1b	
c	Subtract line 1b from line 1a and enter the balance here	1c	
2	Cost of goods sold and/or operations (from Part III, line 8)	2	
3	Subtract line 2 from line 1c and enter the **gross profit** here	3	
4a	Windfall profit tax credit or refund received in 1986 (see Instructions)	4a	
b	Other income	4b	
5	Add lines 3, 4a, and 4b. This is the **gross income** ▶	5	

Part II Deductions

6	Advertising		20	Office expense	
7	Bad debts from sales or services (Cash method taxpayers, see Instructions.)		21	Pension and profit-sharing plans	
8	Bank service charges		22	Rent on business property	
9	Car and truck expenses		23	Repairs	
10	Commissions		24	Supplies (not included in Part III below)	
11	Depletion		25	Taxes (Do not include windfall profit tax here. See line 29.)	
12	Depreciation and section 179 deduction from Form 4562 (not included in Part III below)		26	Travel and entertainment	
13	Dues and publications		27	Utilities and telephone	
14	Employee benefit programs		28a	Wages	
15	Freight (not included in Part III below)		b	Jobs credit	
16	Insurance		c	Subtract line 28b from 28a	
17	Interest:		29	Windfall profit tax withheld in 1986	
a	Mortgage (paid to financial institutions)		30	Other expenses (specify):	
b	Other		a		
18	Laundry and cleaning		b		
19	Legal and professional services		c		
			d		

31	Add amounts in columns for lines 6 through 30d. These are the **total deductions** ▶	31	
32	**Net profit or (loss).** Subtract line 31 from line 5 and enter the result. If a profit, enter on Form 1040, line 12, and on Schedule SE, line 2 (or line 5 of Form 1041 or Form 1041S). If a loss, you **MUST** go on to line 33	32	

33 If you have a loss, you **MUST** answer this question: "Do you have amounts for which you are not at risk in this business (see Instructions)?" ☐ Yes ☐ No
If "Yes," you **MUST** attach **Form 6198.** If "No," enter the loss on Form 1040, line 12, and on Schedule SE, line 2 (or line 5 of Form 1041 or Form 1041S).

Part III Cost of Goods Sold and/or Operations (See Schedule C Instructions for Part III)

1	Inventory at beginning of year (If different from last year's closing inventory, attach explanation.)	1	
2	Purchases less cost of items withdrawn for personal use	2	
3	Cost of labor (Do not include salary paid to yourself.)	3	
4	Materials and supplies	4	
5	Other costs	5	
6	Add lines 1 through 5	6	
7	Less: Inventory at end of year	7	
8	**Cost of goods sold and/or operations.** Subtract line 7 from line 6. Enter here and in Part I, line 2, above.	8	

Codes for Principal Business or Professional Activity

Review the major business categories listed in Step 1 and find the one which best describes your type of business or professional activity. The appropriate category will direct you to specific activity codes in Step 2. Select the activity code that identifies the business or profession that is the principal source of your sales or receipts. Enter this 4 digit code on line B on page 1 of Schedule C. (Note: *If your principal source of income is from farming activities, you should file* Schedule F (Form 1040), *Farm Income and Expenses.*)

Step 1

Major Business Categories	See Specific Activity in Step 2
Production (construction, manufacturing, mining), including custom or contract production services	A
Agricultural services (excluding farming), forestry, and fishing	B
Wholesale trade—selling goods you **do not produce** to businesses and institutions, including sales to professional practices and for farm production	C
Retail trade—selling goods you **do not produce** to individuals and households	D
Serving food or drink	D
Real estate, insurance, finance, and related services	E
Transportation, communications, public utilities, and related services	F
Providing personal, professional, and business services not included in the above categories	G

Step 2

A Production (Including Custom or Contract Production Services)

Code	
	Construction and building trades
0018	Operative builders (building for own account)
	General contractors
0034	Residential building
0059	Nonresidential building
0075	Highway and street construction
3889	Other heavy construction (pipe laying, bridge construction, etc.)
	Building trade contractors, including repairs
0232	Plumbing, heating, air conditioning
0257	Painting, paper hanging, decorating
0273	Electrical work
0299	Masonry, plastering, stone, tile
0414	Carpentering and flooring
0430	Roofing and sheet metal work
0455	Concrete work
0471	Water well drilling
0885	Other building trade contractors (excavation, demolition, etc.)
	Manufacturing, including printing and publishing
0612	Bakeries selling at retail
0638	Other food products and beverages
0653	Textile mill products
0679	Apparel and other textile products
0695	Leather, footware, handbags, etc.
0810	Furniture and fixtures
0836	Lumber and other wood products
0851	Printing and publishing
0877	Paper and allied products
0893	Chemicals and allied products
1016	Rubber and plastics products
1032	Stone, clay, and glass products
1057	Primary metal industries
1073	Fabricated metal products
1099	Machinery and machine shops
1115	Electric and electronic equipment
1313	Transportation equipment
1339	Instruments and related products
1883	Other manufacturing industries
	Mining and mineral extraction
1511	Metal mining
1537	Coal mining
1552	Oil and gas
1719	Quarrying and nonmetallic mining

B Agricultural Services, Forestry, and Fishing

Code	
1917	Soil preparation services
1933	Crop services
1958	Veterinary services, including pets
1974	Livestock breeding
1990	Other animal services
2113	Farm labor and management services
2212	Horticulture and landscaping
2238	Forestry, except logging
0836	Logging
2279	Fishing, hunting, and trapping

C Wholesale Trade—Selling Goods to Other Businesses, Government, or Institutions, etc.

Code	
	Durable goods, including machinery, equipment, wood, metals, etc.
2618	Selling for your own account
2634	Agent or broker for other firms—more than 50% of gross sales on commission
	Nondurable goods, including food, fiber, chemicals, etc.
2659	Selling for your own account
2675	Agent or broker for other firms—more than 50% of gross sales on commission

D Retail Trade—Selling Goods to Individuals and Households

Code	
3012	Selling door-to-door, by telephone or party plan, or from mobile unit
3038	Catalog or mail order
3053	Vending machine selling
	Selling From Store, Showroom, or Other Fixed Location
	Food, beverages, and drugs
3079	Eating places (meals or snacks)
3095	Drinking places (alcoholic beverages)
3210	Grocery stores (general line)
0612	Bakeries selling at retail
3236	Other food stores (meat, produce, candy, etc.)
3251	Liquor stores
3277	Drug stores
	Automotive and service stations
3319	New car dealers (franchised)
3335	Used car dealers
3517	Other automotive dealers (motorcycles, recreational vehicles, etc.)
3533	Tires, accessories, and parts
3558	Gasoline service stations
	General merchandise, apparel, and furniture
3715	Variety stores
3731	Other general merchandise stores
3756	Shoe stores
3772	Mens' and boys' clothing stores
3913	Womens' ready-to-wear stores
3939	Family clothing stores
3954	Other apparel and accessory stores
3970	Furniture stores
3996	TV, audio, and electronics
4119	Household appliance stores
4317	Other home furnishing stores (china, floor coverings, drapes, etc.)
4333	Music and record stores
	Building, hardware, and garden supply
4416	Building materials dealers
4432	Paint, glass, and wallpaper stores
4457	Hardware stores
4473	Nurseries and garden supply stores
	Other retail stores
4614	Used merchandise and antique stores
4630	Gift, novelty, and souvenir shops
4655	Florists
4671	Jewelry stores
4697	Sporting goods and bicycle shops
4812	Boat dealers
4838	Hobby, toy, and game shops
4853	Camera and photo supply stores
4879	Optical goods stores
4895	Luggage and leather goods stores
5017	Book stores, excluding newsstands
5033	Stationery stores
5058	Fabric and needlework stores
5074	Mobile home dealers
5090	Fuel dealers (except gasoline)
5884	Other retail stores

E Real Estate, Insurance, Finance, and Related Services

Code	
5512	Real estate agents and managers
5538	Operators and lessors of buildings (except developers)
5553	Operators and lessors of other real property (except developers)
5710	Subdividers and developers, except cemeteries
5736	Insurance agents and services
5751	Security and commodity brokers, dealers, and investment services
5777	Other real estate, insurance, and financial activities

F Transportation, Communications, Public Utilities, and Related Services

Code	
6114	Taxicabs
6312	Bus and limousine transportation
6338	Trucking (except trash collection)
6510	Trash collection without own dump
6536	Public warehousing
6551	Water transportation
6619	Air transportation
6635	Travel agents and tour operators
6650	Other transportation and related services
6676	Communication services
6692	Utilities, including dumps, snowplowing, road cleaning, etc.

G Services (Providing Personal, Professional, and Business Services)

Code	
	Hotels and other lodging places
7096	Hotels, motels, and tourist homes
7211	Rooming and boarding houses
7237	Camps and camping parks
	Laundry and cleaning services
7419	Coin-operated laundries and dry cleaning
7435	Other laundry, dry cleaning, and garment services
7450	Carpet and upholstery cleaning
7476	Janitorial and related services (building, house, and window cleaning)
	Business and/or personal services
7617	Legal services (or lawyer)
7633	Income tax preparation
7658	Accounting and bookkeeping
7674	Engineering, surveying, and architectural
7690	Management, consulting, and public relations
7716	Advertising, except direct mail
7732	Employment agencies and personnel supply
7757	Computer and data processing, including repair and leasing
7773	Equipment rental and leasing (except computer or automotive)
7914	Investigative and protective services
7880	Other business services
	Personal services
8110	Beauty shops (or beautician)
8318	Barber shop (or barber)
8334	Photographic portrait studios
8516	Shoe repair and shine services
8532	Funeral services and crematories
8557	Physical fitness facilities
8714	Child day care
8730	Teaching or tutoring
8755	Counseling (except health practitioners)
8771	Ministers and chaplains
6882	Other personal services
	Automotive services
8813	Automotive rental or leasing, without driver
8839	Parking, except valet
8854	General automotive repairs
8870	Specialized automotive repairs (brake, body repairs, paint, etc.)
8896	Other automotive services (wash, towing, etc.)
	Miscellaneous repair, except computers
9019	TV and audio equipment repair
9035	Other electrical equipment repair
9050	Reupholstery and furniture repair
2881	Other equipment repair
	Medical and health services
9217	Physicians and surgeons (MD's)
9233	Dentists
9258	Osteopathic physicians and surgeons
9274	Chiropractors
9290	Optometrists
9415	Registered and practical nurses
9431	Other licensed health practitioners
9456	Dental laboratories
9472	Nursing and personal care facilities
9886	Clinics and other health services
	Amusement and recreational services
9613	Videotape rental stores
9639	Motion picture theaters
9654	Other motion picture and TV activities
9670	Bowling alleys and pool parlors
9696	Professional sports and racing, including promoters and managers
9811	Theatrical performers, musicians, agents, producers, and related services
9837	Other amusement and recreational services
8888	Unable to classify—Explain

☆U.S. GOVERNMENT PRINTING OFFICE: 1986-493-084 E.I. 43-0787287

SCHEDULE SE (Form 1040)
Department of the Treasury
Internal Revenue Service (O)

Computation of Social Security Self-Employment Tax

▶ See Instructions for Schedule SE (Form 1040).
▶ Attach to Form 1040.

OMB No. 1545-0074
1986
Attachment Sequence No. 18

Name of person with **self-employment** income (as shown on social security card) | Social security number of person with **self-employment** income ▶

Part I Regular Computation of Net Earnings From Self-Employment

Note: *If you performed services for certain churches or church-controlled organizations and you are not a minister or a member of a religious order, see the instructions before completing the schedule.*

1 Net farm profit or (loss) from Schedule F (Form 1040), line 38, and farm partnerships, Schedule K-1 (Form 1065), line 13a 1

2 Net profit or (loss) from Schedule C (Form 1040), line 32, and Schedule K-1 (Form 1065), line 13a (other than farming). (See instructions for other income to report.) Employees of an electing church or church-controlled organization do **NOT** enter your Form W-2 wages on line 2. See the instructions . . . 2

Note: ☐ *Check here if you are* ***exempt*** *from self-employment tax on your earnings as a minister, member of a religious order, or Christian Science practitioner because you filed* ***Form 4361****. See instructions for kinds of income to report. If you have other earnings of $400 or more that are subject to self-employment tax, include those earnings on line 2.*

Part II Optional Computation of Net Earnings From Self-Employment (See "Who Can Use Schedule SE" in the Instructions. Also see instructions for other limitations.)

Generally, this part may be used **only** if you meet any of the following tests:

A Your gross farm income[1] was not more than $2,400; or

B Your gross farm income[1] was more than $2,400 and your net farm profits[2] were less than $1,600; or

C Your net nonfarm profits[3] were less than $1,600 and your net nonfarm profits[3] were also less than two-thirds (⅔) of your gross nonfarm income.[4]

Note: *If line 2 above is two-thirds (⅔) or more of your gross nonfarm income[4], or, if line 2 is $1,600 or more, you may* ***not*** *use the optional method.*

[1]From Schedule F (Form 1040), line 12, and Schedule K-1 (Form 1065), line 13b.

[2]From Schedule F (Form 1040), line 38, and Schedule K-1 (Form 1065), line 13a.

[3]From Schedule C (Form 1040), line 32, and Schedule K-1 (Form 1065), line 13a.

[4]From Schedule C (Form 1040), line 5, and Schedule K-1 (Form 1065), line 13c.

3 Maximum income for optional methods 3 $1,600 00

4 Farm Optional Method—If you meet test A or B above, enter: the smaller of two-thirds (⅔) of gross farm income from Schedule F (Form 1040), line 12, and farm partnerships, Schedule K-1 (Form 1065), line 13b; or $1,600 4

5 Subtract line 4 from line 3 5

6 Nonfarm Optional Method—If you meet test C above, enter: the smallest of two-thirds (⅔) of gross nonfarm income from Schedule C (Form 1040), line 5, and Schedule K-1 (Form 1065), line 13c (other than farming); or $1,600; or, if you elected the farm optional method, the amount on line 5 6

Part III Computation of Social Security Self-Employment Tax

7 Enter the amount from Part I, line 1, or, if you elected the farm optional method, Part II, line 4 7

8 Enter the amount from Part I, line 2, or, if you elected the nonfarm optional method, Part II, line 6 . . . 8

9 Add lines 7 and 8. If less than $400, do not fill in the rest of this schedule because you are not subject to self-employment tax. (**Exception:** If you are an employee of an electing church or church-controlled organization, see the instructions. You may owe self-employment tax on the amount you report on line 12c.) 9

10 The largest amount of combined wages and self-employment earnings subject to social security or railroad retirement tax (tier 1) for 1986 is 10 $42,000 00

11 a Total social security wages and tips from Forms W-2 and railroad retirement compensation (tier 1). **Note:** *Medicare qualified government employees whose wages are only subject to the 1.45% medicare (hospital insurance benefits) tax and employees of certain church or church-controlled organizations should* **not** *include those wages on this line. (See instructions.)* 11a

b Unreported tips subject to social security tax from Form 4137, line 9, or to railroad retirement tax (tier 1) 11b

c Add lines 11a and 11b 11c

12 a Subtract line 11c from line 10 . . . . . 12a

b Enter your medicare qualified government wages if you are required to use the worksheet in Part III of the instructions. 12b

c Enter your Form W-2 wages of $100 or more from an electing church or church-controlled organization. 12c

13 Enter the smaller of line 9 or line 12a 13

If line 13 is $42,000, fill in $5,166 on line 14. Otherwise, multiply line 13 by .123 and enter the result on line 14 123

14 Self-employment tax. Enter this amount on Form 1040, line 50 14

For Paperwork Reduction Act Notice, see Form 1040 Instructions. ☆U.S. GOVERNMENT PRINTING OFFICE : 1986-493-110 **Schedule SE (Form 1040) 1986**

7. Assume that both Mary Machinist and Herman Hypothetical were employed by Ed of 1/1/86. Mary's gross pay is $300 and Herman's is $1,200 per pay period. Their income tax withholdings are $10.00 and $215.50, respectively. There were six paydays in the first quarter beginning 1/17/86 and every other Friday thereafter.

   Prepare a 941 for the quarter ending 3/31/86, showing any necessary interim deposits as well as the final payment in reconciliation of Ed's obligations.

8. Continuing with the assumptions from question 7, there were 19 additional paydays by the end of 1986. Prepare a 940 reflecting Ed's obligations and any required interim deposits. (Use the 1985 form 940 provided)

9. Complete the following:

   Partnerships and corporations must apply for _____ _____ at the time they are organized. A sole proprietor must apply for one only if employees are hired; otherwise, the individual's _____ is all that's needed.

10. Complete the following:

    Forms _____ and _____ for employer/employee are similar in function to Forms_____ and_____ for the purchaser and non-incorporated vendor of services.

Form **940**
Department of the Treasury
Internal Revenue Service

Employer's Annual Federal Unemployment (FUTA) Tax Return

▶ For Paperwork Reduction Act Notice, see page 2.

OMB No 1545-0028

1986

T	
FF	
FD	
FP	
I	
T	

Name (as distinguished from trade name) — Calendar year

If incorrect, make any necessary change. ▶

Trade name, if any

Address and ZIP code

Employer identification number

A Did you pay all required contributions to your state unemployment fund by the due date of Form 940? (See instructions if none required.) ☐ Yes ☐ No

If you checked the "Yes" box, enter amount of contributions paid to your state unemployment fund ▶ $

B Are you required to pay contributions to only one state? ☐ Yes ☐ No

If you checked the "Yes" box: (1) Enter the name of the state where you are required to pay contributions ▶

(2) Enter your state reporting number(s) as shown on state unemployment tax return. ▶

C If any part of wages subject to FUTA tax is not subject to state unemployment tax, check the box ☐

Part I Computation of Taxable Wages and Credit Reduction (To be completed by all taxpayers.)

1	Total payments (including exempt payments) during the calendar year for services of employees		1
2	Exempt payments. (Explain each exemption shown, attaching additional sheets if necessary.) ▶	Amount paid 2	
3	Payments for services of more than $7,000. Enter only the excess over the first $7,000 paid to individual employees not including exempt amounts shown on line 2. Do not use the state wage limitation	3	
4	Total exempt payments (add lines 2 and 3)		4
5	**Total taxable wages** (subtract line 4 from line 1). (If any part is exempt from state contributions, see instructions.) ▶		5

6 Additional tax resulting from credit reduction for unrepaid advances to the states listed (by two-letter Postal Service abbreviations). Enter the wages included on line 5 above for each state and multiply by the rate shown. (See the instructions.)

(a) IL _____ x .012= _____ (c) OH _____ x .011= _____ (e) WV _____ x .011= _____

(b) LA _____ x .009= _____ (d) PA _____ x .012= _____

7	Total credit reduction (add resulting amounts from lines 6(a) through 6(e) and enter here and in Part II, line 2 or Part III, line 4) ▶		7

Part II Tax Due or Refund (Complete if you checked the "Yes" boxes in both questions A and B and did not check the box in C, above.)

1	FUTA tax. Multiply the wages in Part I, line 5, by .008 and enter here		1
2	Enter amount from Part I, line 7		2
3	**Total FUTA tax** (add lines 1 and 2)		3
4	Minus: Total FUTA tax deposited for the year, including any overpayment applied from a prior year (from your records)		4
5	**Balance due** (subtract line 4 from line 3). This should be $100 or less. Pay to IRS ▶		5
6	**Overpayment** (subtract line 3 from line 4). Check if it is to be: ☐ Applied to next return, or ☐ Refunded ▶		6

Part III Tax Due or Refund (Complete if you checked the "No" box in either question A or B or you checked the box in C, above. Also complete Part V.)

1	Gross FUTA tax. Multiply the wages in Part I, line 5, by .062		1
2	Maximum credit. Multiply the wages in Part I, line 5, by .054	2	
3	Enter the smaller of the amount in Part V, line 11, or Part III, line 2	3	
4	Enter amount from Part I, line 7		4
5	**Credit allowable** (subtract line 4 from line 3). (If zero or less, enter 0.)		5
6	**Total FUTA tax** (subtract line 5 from line 1)		6
7	Minus: Total FUTA tax deposited for the year, including any overpayment applied from a prior year (from your records)		7
8	**Balance due** (subtract line 7 from line 6). This should be $100 or less. Pay to IRS ▶		8
9	**Overpayment** (subtract line 6 from line 7). Check if it is to be: ☐ Applied to next return, or ☐ Refunded ▶		9

Part IV Record of Quarterly Federal Tax Liability for Unemployment Tax (Do not include state liability.)

Quarter	First	Second	Third	Fourth	Total for Year
Liability for quarter					

If you will not have to file returns in the future, write "Final" here (see general instruction "Who Must File") and sign the return. ▶

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete, and that no part of any payment made to a state unemployment fund claimed as a credit was or is to be deducted from the payments to employees.

Signature ▶ **Title (Owner, etc.)** ▶ **Date** ▶

Part V Computation of Tentative Credit (Complete if you checked the "No" box in either question A or B or you checked the box in C, on page 1—see instructions.)

Name of state	State reporting number(s) as shown on employer's state contribution returns	Taxable payroll (as defined in state act)	State experience rate period 4		State experience rate	Contributions if rate had been 5.4% (col. 3 x .054)	Contributions payable at experience rate (col. 3 x col. 5)	Additional credit (col. 6 minus col. 7) If 0 or less, enter 0.	Contributions actually paid to state
			From—	To—					
1	2	3			5	6	7	8	9
10 Totals ▶									

11 Total tentative credit (add line 10, columns 8 and 9—see instructions for limitations) ▶

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Changes You Should Note for 1986.—Public Law 99-272 reinstated the exemption from FUTA tax for services performed by certain alien farmworkers, full-time students employed by organized camps, and fishing boat crew members. The Tax Reform Act of 1986 reinstated the exemption for amounts received under educational assistance programs (also increasing the maximum exclusion to $5,250) and received under group legal services plans. See **Circular E**, Employers' Tax Guide, for details.

General Instructions

Purpose of Form.—Use this form for your annual FUTA tax report. **Only the employer pays this tax.**

Who Must File

Household Employers.—You do not have to file this form unless you paid cash wages of $1,000 or more in any calendar quarter in 1985 or 1986 for household work in a private home, local college club, or a local chapter of a college fraternity or sorority. **Note:** *See Publication 503, Child and Dependent Care Credit, and Employment Taxes for Household Employers, for more information.*

In General.—You must file this form if you were other than a household or agricultural employer during 1985 or 1986, and you (a) paid wages of $1,500 or more in any calendar quarter, or (b) had one or more employees for some part of a day in any 20 different weeks. Count all regular, temporary, and part-time employees. A partnership should not count its partners. If there is a change in ownership or other transfer of business during the year, each employer who meets test (a) or (b) above must file. Neither should report wages paid by the other. Organizations described in section 501(c)(3) of the Internal Revenue Code do not have to file.

Agricultural Employers.—You must file Form 940 if either of the following applies to you:

(1) You paid cash wages of $20,000 or more to farmworkers during any calendar quarter in 1985 or 1986.

(2) You employed 10 or more farmworkers during some part of a day (whether or not at the same time) for at least one day during any 20 different weeks in 1985 or 1986. Count aliens admitted to the United States on a temporary basis to perform farmwork to determine if you meet either of the above tests. However, wages paid to these aliens are not subject to FUTA tax before 1993.

Completing Form 940

Employers Who Are Not Required To Deposit FUTA Tax.—If your total FUTA tax for 1986 is not more than $100, you do not have to deposit the tax. Make your FUTA tax payment when you file Form 940. If you do not have to deposit FUTA tax and you:

(a) made all required payments to your state unemployment fund by the due date of Form 940,

(b) are required to make payments to the unemployment fund of only one state; and

(c) paid wages subject to Federal unemployment tax that are also subject to state unemployment tax,

complete Parts I and II. Otherwise, complete Parts I, III, and V.

Employers Who Are Required To Deposit FUTA Tax.—If you meet tests (a), (b), and (c) above, complete Parts I, II, and IV. Otherwise, complete Parts I, III, IV, and V.

If You Are Not Liable for FUTA Tax.—If you receive Form 940 and are not liable for FUTA tax for 1986, write "Not Liable" across the front and return it to IRS. If you will not have to file returns after this, write "Final" on the line above the signature line and sign the return.

Due Date.—Form 940 for 1986 is due by February 2, 1987. However, if you made timely deposits in full payment of the tax due, your due date is February 10, 1987.

Where To File.—

If your principal business, office or agency is located in:	File with the Internal Revenue Service Center at:
Alabama, Florida, Georgia, Mississippi, South Carolina	Atlanta, GA 31101
New Jersey, New York City and counties of Nassau, Rockland, Suffolk, and Westchester	Holtsville, NY 00501
New York (all other counties), Connecticut, Maine, Massachusetts, Minnesota, New Hampshire, Rhode Island, Vermont	Andover, MA 05501
Illinois, Iowa, Missouri, Wisconsin	Kansas City, MO 64999
Delaware, District of Columbia, Maryland, Pennsylvania, Puerto Rico, Virgin Islands	Philadelphia, PA 19255
Kentucky, Michigan, Ohio, West Virginia	Cincinnati, OH 45999
Kansas, Louisiana, New Mexico, Oklahoma, Texas	Austin, TX 73301
Alaska, Arizona, California (counties of Alpine, Amador, Butte, Calaveras, Colusa, Contra Costa, Del Norte, El Dorado, Glenn, Humboldt, Lake, Lassen, Marin, Mendocino, Modoc, Napa, Nevada, Placer, Plumas, Sacramento, San Joaquin, Shasta, Sierra, Siskiyou, Solano, Sonoma, Sutter, Tehama, Trinity, Yolo, and Yuba), Colorado, Idaho, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming	Ogden, UT 84201
California (all other counties), Hawaii	Fresno, CA 93888
Arkansas, Indiana, North Carolina, Tennessee, Virginia	Memphis, TN 37501

If you have no legal residence or principal place of business in any IRS district, file with the Internal Revenue Service Center, Philadelphia, PA 19255.

Employer's Name, Address, and Identification Number.—Use the preaddressed Form 940 mailed to you. If you must use a nonpreaddressed form, type or print your name, trade name, address, and employer identification number on it.

See **Publication 583,** Information for Business Taxpayers, for details on how to make tax deposits, file a return, etc., if these are due before you receive your number.

Identifying Your Payments.—On balance due payments made to IRS (Part II, line 5 and Part III, line 8) and Federal tax deposit payments, write your employer identification number, "Form 940," and tax period to which the payment applies on your check or money order. This will help ensure proper crediting of your account.

Penalties and Interest.—Avoid penalties and interest by making tax deposits when due and filing a correct return and paying the proper amount of tax when due. The law provides penalties for late deposits and late filing unless you show reasonable cause for the delay. If you file late, attach an explanation to the return. The law also provides a penalty of 25% of the overstatement if, without reasonable cause, you overstate the amount you deposited.

There are also penalties for willful failure to pay tax, keep records, make returns, and for filing false or fraudulent returns.

Credit for Contributions Paid Into State Funds.—You can claim credit for amounts you pay into a certified state (including Puerto Rico and the Virgin Islands) unemployment fund by the due date of Form 940.

Note: *Be sure to enter your state reporting number where required on Form 940. This number is needed for IRS to verify your state contributions.*

"Contributions" are payments that state law requires you to make to an unemployment fund because you are an employer. These payments are "contributions" only to the extent that they are not deducted or deductible from the employees' pay.

You may not take credit for voluntary payments or for penalties or interest payments to a state. Nor may you take credit for any special assessment, surtax, surcharge, etc., by the state for paying interest on unrepaid Title XII loans from the Federal Government.

If you have been granted an experience rate lower than 5.4% (.054) by a state for the whole or part of the year, you are entitled to an additional credit. This credit is equal to the difference between actual payments and the amount you would have been required to pay at 5.4%.

The total credit allowable may not be more than 5.4% of taxable FUTA wages.

Special Credit for Successor Employers.—If you are claiming special credit as a successor employer, see Code section 3302(e) or Circular E, for the conditions you must meet.

Amended Returns.—If you are amending a previously filed return, complete a new Form 940, using the amounts that should have been used on the original return, and sign the return. Attach a statement explaining why you are filing an amended return. Be sure to use a Form 940 for the year you are amending. Write "AMENDED RETURN" at the top of the form and file it with the Internal Revenue Service Center where you filed the original return.

Specific Instructions

You must answer questions A and B (check the box in C only if it applies), complete Part I, and sign the return.

Note: *If you have been assigned a zero percent experience rate by your state, so that there are no required contributions to the state unemployment fund, check the "Yes" box in question A and write "0% rate" on the dollar amount line.*

Use Part II only if you checked the "Yes" boxes in questions A and B and did not check the box in C. Otherwise, skip Part II and complete Parts III and V.

Complete Part IV if your total tax for the year is more than $100.

(Instructions continued on page 4.)

940 Solution:

QUARTERLY EARNINGS

	1 *6 paydays*	*2* *6 pay*	*3* *6 pay*	*4* *6 pay*	*Total yr.*
Mary *Herman*					
Mary's *xs of $7,000* *Herman's* *xs of $7,000*					
Taxable					
Tax liability *Running Liab.*					

Form **941**
(Rev. January 1987)
Department of the Treasury
Internal Revenue Service

Employer's Quarterly Federal Tax Return

► For Paperwork Reduction Act Notice, see page 2.
Please type or print

OMB No 1545-0029
Expires 8-31-88

Type or print your name, address, employer identification number, and calendar quarter of return as shown on original.

Name (as distinguished from trade name) | Date quarter ended

Trade name, if any | Employer identification number

Address and ZIP code

YOUR COPY

If you are not liable for returns in the future, check here . . . ► ☐ Date final wages paid . . . ►

Complete for First Quarter Only

1a	Number of employees (except household) employed in the pay period that includes March 12th . ►	1a	
b	If you are a subsidiary corporation AND your parent corporation files a consolidated Form 1120, enter parent corporation employer identification number (EIN) . ► | 1b | –		
2	Total wages and tips subject to withholding, plus other compensation . . . . . ►	2	
3	Total income tax withheld from wages, tips, pensions, annuities, sick pay, gambling, etc. . . . ►	3	
4	Adjustment of withheld income tax for preceding quarters of calendar year (see instructions) . . ►	4	
5	Adjusted total of income tax withheld	5	
6	Taxable social security wages paid . . . . $ _____ X 14.3% (.143) . .	6	
7a	Taxable tips reported . . . . . $ _____ X 7.15% (.0715) .	7a	
b	Tips deemed to be wages (see instructions) . . $ _____ X 7.15% (.0715) .	7b	
c	Taxable hospital insurance wages paid . . . . $ _____ X 2.9% (.029) . .	7c	
8	Total social security taxes (add lines 6, 7a, 7b, and 7c)	8	
9	Adjustment of social security taxes (see instructions for required explanation) . . . . . ►	9	
10	Adjusted total of social security taxes (see instructions)	10	
11	Backup withholding (see instructions) . . . . . ►	11	
12	Adjustment of backup withholding tax for preceding quarters of calendar year	12	
13	Adjusted total of backup withholding	13	
14	Total taxes (add lines 5, 10, and 13) . . . . . ►	14	
15	Advance earned income credit (EIC) payments, if any	15	
16	Net taxes (subtract line 15 from line 14). **This must equal line IV below** (plus line IV of Schedule A (Form 941) if you have treated backup withholding as a separate liability)	16	
17	Total deposits for quarter, including overpayment applied from a prior quarter, from your records . ►	17	
18	Balance due (subtract line 17 from line 16). This should be less than $500. Pay to IRS . . . . ►	18	
19	If line 17 is more than line 16, enter overpayment here ► $ _____ and check if to be: ☐ Applied to next return or ☐ Refunded.		

Record of Federal Tax Liability (Complete if line 16 is $500 or more.) See the instructions under rule 4 for details before checking these boxes.
Check only if you made eighth-monthly deposits using the 95% rule ► ☐ Check only if you are a first time 3-banking-day depositor ► ☐

Date wages paid	Tax liability *(Do not show Federal tax deposits here.)*					
	First month of quarter		Second month of quarter		Third month of quarter	
1st through 3rd	A		I		Q	
4th through 7th	B		J		R	
8th through 11th	C		K		S	
12th through 15th	D		L		T	
16th through 19th	E		M		U	
20th through 22nd	F		N		V	
23rd through 25th	G		O		W	
26th through the last	H		P		X	
Total liability for month	*I*		*II*		*III*	

IV Total for quarter (add lines *I*, *II*, and *III*) . . . . . ►

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete

Signature ► **Title** ► **Date** ►

please request one from your IRS district office. There are coupons and a reorder form in each book and the coupons can be used to deposit any type of tax for any tax year. Please see the instructions in the coupon book for additional information.

Rules When Your Deposits Are Due.—The amount of taxes you owe determines the frequency of deposits. You owe these taxes when you pay the wages, not when your payroll period ends. The rules below tell you how often to deposit taxes. For examples, see Circular E.

(1) Less than $500 at the end of a quarter.—If at the end of the quarter your total undeposited taxes for the quarter are less than $500, you do not have to deposit the taxes. You may pay the taxes to IRS with Form 941, or you may deposit them by the due date of the return.

(2) Less than $500 at the end of any month.—If at the end of any month your total undeposited taxes are less than $500, you do not have to make a deposit. You may carry the taxes over to the following month within the quarter.

(3) $500 or more but less than $3,000 at the end of any month.—If at the end of any month your total undeposited taxes are $500 or more but less than $3,000, you must deposit the taxes within 15 days after the end of the month.

Exception: If this occurs at the end of a month in which you made a deposit of $3,000 or more, carry over the amount to the next month. Follow rules 3 and 4 to determine when the next deposit is required. However, if this occurs in the last month of a quarter, deposit any balance due of $500 or more but less than $3,000 by the end of the next month. Any balance due of less than $500 can be paid with the return (see rule 1).

(4) $3,000 or more at the end of any eighth-monthly period.—If at the end of any eighth-monthly period your total undeposited taxes are $3,000 or more, deposit the taxes within 3 banking days after the end of that eighth-monthly period. Do not count as banking days local holidays observed by authorized financial institutions, Saturdays, Sundays, and legal holidays.

Note: *Deposits of $20,000 or more which are made by taxpayers required to deposit taxes more than once a month must be received by the due date to be timely. See Circular E for details.*

You will be considered to meet rule 4 if:

- You deposit at least 95% of the tax liability for that eighth-monthly period within 3 banking days after the end of that period; and
- You deposit any underpayment as follows:

(a) If an eighth-monthly period is in the first or second month of the quarter, you deposit the underpayment with the first deposit that is required to be made after the 15th of the following month.

(b) If an eighth-monthly period is in the last month of the quarter, you deposit any underpayment of $500 or more by the due date of the return. (Any underpayment less than $500 can be paid with Form 941 as explained in rule 1.)

Check the first box at the top of the Record of Federal Tax Liability only if you are making deposits using the 95% rule.

Exception to rule 4.—If this is the first time you are required to make a deposit within 3 banking days after the end of an eighth-monthly period, you may deposit the taxes by the 15th day of the next month (instead of within 3 banking days after the eighth-monthly period) if you meet all of the following conditions. You were not required to deposit taxes for any eighth-monthly period during the 4 quarters preceding the current quarter; you were not required to deposit taxes for any eighth-monthly period during earlier months of this quarter, and your total undeposited taxes at the end of any eighth-monthly period during this month are less than $10,000.

Check the second box at the top of the Record only if you qualify for this exception to rule 4 and attach a statement showing your net taxes for each of the preceding 4 calendar quarters.

Line 1—Number of employees.—Complete for the January-March calendar quarter only. Do not include household employees, persons who received no pay during the pay period, pensioners, or members of the Armed Forces. If you have only household employees in the pay period, enter -0-.

Line 2.—Enter the total of: all wages paid, tips reported, taxable fringe benefits provided, and other compensation paid to your employees, even if you do not have to withhold income or social security taxes on it. Do not include pensions, annuities, third-party sick pay, supplemental unemployment compensation benefits, or gambling winnings, even if you withheld income tax on them.

Line 3.—Enter the income tax you withheld on wages, tips, taxable fringe benefits, annuities, third-party sick pay, supplemental unemployment compensation benefits, and gambling winnings on line 3. Report the amount in whole dollars if you withheld tax in whole dollars.

Line 4—Adjustment of withheld income tax.—Use line 4 to correct errors in income tax withheld from wages paid in earlier quarters of the same calendar year. Explain any amount on Form 941c or attach a statement that shows: (a) what the error was, (b) quarter in which the error was made, (c) the amount of the error for each quarter, (d) quarter in which you found the error, and (e) how you and your payees have settled any overcollection or undercollection. Do not use this line to adjust income tax withholding for earlier years.

Line 5—Adjusted total of income tax withheld.—Add line 4 to line 3 if you are reporting additional income tax withheld for an earlier quarter in this calendar year. Subtract line 4 from line 3 if you are reducing the amount of income tax withheld.

Line 6—Taxable social security wages.—Enter the total wages subject to social security taxes that you paid your employees during the quarter. Include the employee social security tax and the employee State unemployment compensation tax you paid for your employees rather than deducting it from their wages. Also include any sick pay and taxable fringe benefits subject to social security taxes. Enter the amount before deductions. Do not include tips on this line. Stop reporting when an employee's wages (other than tips) reach $43,800 for 1987. However, continue to withhold income tax for the whole year on wages and tips even when the social security wage base of $43,800 is reached. If none of the payments are subject to social security tax, enter -0-.

Line 7a—Taxable tips.—Enter all tips your employees reported during the quarter, until tips and wages for each employee reach $43,800 in 1987. Do this even if you were not able to withhold the employee tax (7.15%). An employee must report to you cash tips, including tips you paid the employee for charge customers, totaling $20 or more in a month by the 10th of the next month. The employee may use Form 4070 or a written statement. Do not include allocated tips on this line. Instead, report them on **Form 8027**, Employer's Annual Information Return of Tip Income and Allocated Tips. Allocated tips are not reportable on Form 941 and are not subject to withholding of income or social security taxes.

Line 7b—Tips deemed to be wages.—If you have employees who receive and report $20 or more of tips a month and you are subject to the minimum wage laws of the Fair Labor Standards Act, you may have to pay more social security tax if you pay these employees wages (not including any tip credit) that are less than the Federal minimum wage, you must pay employer social security tax on the difference between the Federal minimum wage and the wages you paid. This amount is tips deemed to be wages. Enter it on line 7b and multiply by 7.15%.

Line 7c—Taxable hospital insurance wages.—Federal government employers must use this line to report wages subject only to the hospital insurance tax and the combined employer-employee tax. Do not report more than $43,800 of wages for an employee for 1987. The combined tax rate is 2.9%.

Line 9—Adjustment of social security taxes.—Use line 9 to correct errors in social security taxes reported on an earlier return, or to correct errors in credits for overpayments of penalty or interest paid on tax for an earlier quarter. If you report both an underpayment and an overpayment, show only the difference. Except for fractions of cents, or third-party sick pay, explain any amount on line 9 on Form 941c, or attach a statement that shows: (a) what the error was, (b) ending date of each quarter in which the error was made, and the amount of the error, (c) quarter in which you found the error, (d) that you repaid the employee tax or got each affected employee's written consent to this refund or credit, if the entry corrects an overcollection, and (e) if the entry corrects social security tax overcollected in an earlier year, that you got from the employee a written statement that he or she has not claimed and will not claim a refund or credit for the amount.

Enter on Form 941c or include in the statement the total wages or tips for all your employees as previously reported and as corrected. You can get Form 941c from IRS.

Adjustments of tax on tips.—Include on line 9 the total uncollected employee social security tax for line 7a. Also include the total adjustments where employee tax does not apply to amounts on line 6. Attach a statement explaining each adjustment. (See Circular E for details.)

Adjustment of tax on third-party sick pay.—Deduct on line 9 the social security tax on third-party sick pay for which you are not responsible, and write "Sick pay" in the margin.

Fraction of cents.—If there is a difference between the total tax on line 8 and the total deducted from your employees' wages or tips because of fractions of cents added or dropped in collecting the tax, report the difference on line 9. If this difference is the only entry, write "Fractions only" in the margin.

Line 10—Adjusted total of social security taxes.—Add line 9 to line 8 if you are reporting additional taxes for an earlier quarter. Subtract line 9 from line 8 if you are reducing the amount of taxes reported for an earlier quarter, or claiming credit for overpayments of penalty or interest paid on tax for an earlier quarter.

Line 11—Backup withholding.—Enter the income tax withheld as backup withholding.

Line 12.—Use line 12 to correct errors in backup withholding tax for earlier quarters of this year.

Line 17—Total deposits for quarter.—Enter the total deposits for the quarter including backup withholding reported on Schedule A (Form 941) and any overpayment applied from the previous quarter from your records.

Line 18—Balance due.—If you deposited all taxes when due, any balance will be less than $500. Enter your EIN, "Form 941," and the tax period to which the payment applies on your check or money order.

Line 19—Overpayment.—If you deposited more than the correct amount for a quarter, you can have the overpayment refunded or applied to your next return.

Signature.—Be sure to sign the return.

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Form 941 Solution

	Gross pay	*Tax W/H*	*FICA W/H*	*Empl.W/H*
Mary				
Herman				
	____	_____	_____	_____
Totals				

Paydays:

No deposit for January (less than $500).
$1299.90 deposit at end of February.
$1299.90 paid with Form 941 before 4/15.

CHAPTER THIRTEEN STUDY GUIDE

1. Under what conditions will you accept returns?

	Yes	No
Anything and Everything?	____	____
Exchange only?	____	____
Within how many days?_____		
Repair only?	____	____
Share cost with customer?	____	____
No cash refunds?	____	____
Breakage:	____	____
No charge____ Cost only____ Retail	____	

In your business there are certain customer-related problems that will develop. If any problems are your fault, give three examples of these problems and what you would be willing to do to correct them.

_____

_____

_____

2. **Sales:** Will it be your policy to offer -

	Yes	No
Money back guarantees	____	____
Limited warranties	____	____
Free home trials	____	____
Demonstrations	____	____
Price-matching	____	____
Classes	____	____

3. **Deliveries:** Will it be your policy to offer -

	Yes	No
No deliveries	____	____
Deliveries at cost	____	____
UPS	____	____
Local service	____	____
Your vehicle	____	____
Mail	____	____

4. **Hours:** Answer the following questions.

a. Are there established merchants hours in your area?

_____Yes _____No

If so, what are they?

Days_____ From_____ To_____
Days_____ From_____ To_____

b. What hours do your competitors keep?

Days_____ From_____ To_____
Days_____ From_____ To_____

c. Based on the above, what hours will you keep?

Days_____ From_____ To_____

5. **Gift Wrapping:** What will be your policy?

	Yes	No
Free	____	____
Box only	____	____
With your name	____	____
Will you charge customer?	____	____
How much?_____		
Paper, box and ribbon?	____	____
With name on sticker?	____	____
Charge customer?	____	____
How much?_____		

No gift wrapping:_____

6. **Miscellaneous Policies**

	Yes	No	No concern
Smoking	_____	_____	_____
Food	_____	_____	_____
Pets	_____	_____	_____
Music	_____	_____	_____
Dress code	_____	_____	_____

7. List two charities to which you will contribute initially.

_____

_____

8. **Establishing your credit**

	Yes	No
Have you asked your bank what kind of credit reference they will provide?	____	____
Is there a dollar limit? If so, what is the amount?_____	____	____
Have you asked for a report of your personal credit from your local credit bureau?	____	____
Do you have any negative or incorrect reports?	____	____

If so, how will you correct these?

Explain:_____

_____

_____

9. **Extending Credit**

	Yes	No
Will you offer any credit?	____	____

If so, what kind?

Your own business charge	____	____
Visa	____	____
MasterCard	____	____
American Express	____	____
Diners Club	____	____
Regional Card (Shoppers, etc.)	____	____

Security: In questions 10-20, check the security precautions you plan to take.

		Yes	No
10.	Fire extinguishers How many?_____	____	____
11.	Fire drills and/or posted escape procedures?	____	____
12.	Signs stating policy on theft	____	____
	Will you prosecute?	____	____
	If so, at what level of dollar loss?	____	____
13.	Security guard	____	____
14.	Surveillance camera	____	____
15.	Other security measures (lighting, windows, one-way glass, etc.)	____	____

Explain:_____
_____
_____

16.	Internal audits	____	____
17.	Perpetual inventory	____	____
18.	Accounting review How frequent?_____	____	____
19.	Duplicate records off-site	____	____

20. Name of Civil Defense contact:

Name:_____

Address:_____

Telephone:_____

Inventory Control

	Yes	No
21. Which method will you use for inventory control?		
Stock count	____	____
Perpetual	____	____
Both	____	____
Stock/Sales Ratio	____	____

22. List six vendors from whom you plan to order, with their addresses, phone numbers and contacts. After contacting, fill in approximate time required for delivery.

		Delivery Time
_____ Business Name	_____ Contact	_____
_____ Street Address	_____ Telephone	
_____ City and State	_____ Zip	
_____ Business Name	_____ Contact	_____
_____ Street Address	_____ Telephone	
_____ City and State	_____ Zip	
_____ Business Name	_____ Contact	_____
_____ Street Address	_____ Telephone	
_____ City and State	_____ Zip	

		Delivery Time
Business Name	Contact	
Street Address	Telephone	
City and State	Zip	
Business Name	Contact	
Street Address	Telephone	
City and Street	Zip	
Business Name	Contact	
Street Address	Telephone	
City and State	Zip	

23. **Memberships:** List organizations you plan to join and the contacts for information:

Organization	Name of Contact	Phone

CHAPTER THIRTEEN STUDY GUIDE
(After Question 23 of "Local Questions")

1. List ten policies most businesses need to establish:

_____ _____

_____ _____

_____ _____

_____ _____

_____ _____

2. What are the five most popular credit choices businesses offer customers?

_____ _____

_____ _____

_____ _____

3. What are five collection methods available to businesses?

_____ _____

_____ _____

_____

4. List four areas of security which businesses commonly cover:

_____ _____

_____ _____

5. Name eight security measures businesses can take in any area.

_____

_____

_____

_____

_____

_____

_____

6. List four methods of quality control.

_____

_____

_____

_____

7. What are the most commonly used methods of inventory control?

_____ _____

_____

8. List at least three recognized business organizations and the types of service they provide.

Name	Service
_____	_____
_____	_____
_____	_____

CHAPTER FOURTEEN STUDY GUIDE

Questions 1-4 and 10-18 will refer to the product or service you plan to sell in your small business. If you will be selling a variety of products or services, select one to answer these questions. Not all of the questions may apply to your type of business. Write N/A (not applicable) when the question does not apply to your selling situation.

1. List the main features of your product or service:

_____

_____

_____

_____

2. Think of how each feature will benefit the customer. List the main benefits of each failure:

_____

_____

_____

3. What would motivate a customer to buy your product or service? List as many subjective and objective buying motives as you can think of:

Subjective	Objective
_____	_____
_____	_____
_____	_____
_____	_____
_____	

4. *Think about a major purchase you made last year. Who assumed the following roles:*

Initiator:_____

Influencer:_____

Decider:_____

Purchaser:_____

User:_____

How will understanding buying roles help you sell your product or service?

_____

_____

5. *Assume a customer walks in your retail store and begins to browse.*

a. *Greet him/her using the conversational approach:*

_____

_____

b. *Greet him/her using the merchandising approach:*

_____

_____

6. *What are some opportunities in your business to "plus" the sale?*

_____

_____

Questions 7-9 will require you to start prospecting. You will need to do some leg work to develop a list of qualified prospects.

7. What are some sources for locating your potential buyers? Use these sources to develop your initial prospect list.

_____

_____

_____

8. a. List the information you will need to qualify your prospects and to prepare for the first contact.

_____

_____

_____

b. In your business, what makes a prospect qualified?

_____

_____

9. a. List your 10 most qualified prospects:

1. _____
2. _____
3. _____
4. _____
5. _____
6. _____
7. _____
8. _____
9. _____
10. _____

b. How will you make your first contact with these prospects?

_____

_____

10. Create a benefit offer in the form of a question to be used in your opening to generate interest in your product or service:

11. What specific needs will your product or service satisfy? What problems will it solve?

12. Write three questions you would ask a typical prospect to asses his/her needs.

    a. _____

    b. _____

    c. _____

13. Create a benefit statement for your product or service.

    a. Assume your prospect, Mr. Smith, has a specific reason to buy. What could you say to support his need?

    b. Write a statement showing how a feature of your product or service relates to that need.

    c. Create a benefit statement for Mr. Smith.

14. List five objections a prospect might raise when you ask him to buy:

    Examples

    a.

    b.

    c.

    d.

    e.

15. Create statements to answer each of these objections as you would in a sales presentation:

a.

b.

c.

d.

e.

16. *How might your prospect signal a strong desire to buy your product or service?*

Statements such as:

17. *Create a trial close statement you would use during the sales presentation:*

Examples:

18. a. *Your prospect seems ready to buy. What will you say to close the sale?*

Examples

b. *What will you do if he/she says "no"?*

19. a. *In your business, what are some ways you can use the telephone to sell your product or service?*

b. *When would your prime selling time be?*

20. *Devise a record keeping system for your telephone selling.*

Questions 21-23 will involve setting up a direct mail program for selling your product or service.

21. a. *What is the objective of direct mail in your business?*

b. *What action do you want the reader to take?*

22. *Compile your mailing list.*

23. *Plan your direct mail package.*

    a. *Write a sales letter. (Use a separate sheet of paper and attach it.)*

    b. *Design an order form. (Use a separate sheet of paper and attach it.)*

CHAPTER FIFTEEN STUDY GUIDE

1. What is the difference between "speculative risk" and "pure risk"?

   _____

   _____

2. *What advantages do you gain by having deductibles in insurance policies?*

   _____

3. *Insurance coverage for small losses, which are more likely to occur, is more important than insurance coverage for large losses, which are less likely to occur.*

   *True*_____ *False*_____

4. You can often make a profit from insurance if a disaster strikes and you have arranged your coverage appropriately.

   True_____ False_____

5. Lower-priced policies are always a smart move.

   True_____ False_____

6. What are some important factors involved in choosing an insurance agent?

   _____

   _____

   _____

7. What are the two main types of insurance companies?

a. _____

b. _____

8. What are some factors, other than price, which can affect your choice of insurance companies?

_____

_____

_____

9. Your choice of insurance agents and brokers is often more important than your choice of insurance companies?

True_____ False_____

10. Name some common risks to your property - as many as you can think of.

_____

_____

11. *What are some events for which you might need liability insurance?*

_____

_____

_____

12. An "all-risk" property and liability insurance policy automatically includes coverage for flood damage to your property.

True_____ False_____

13. What is the difference between "actual value" and "replacement cost" property coverage?

_____

_____

_____

_____

14. For most people, group life and health insurance is cheaper than individual life and health insurance even if the employer does not pay part of the cost.

True_____ False_____

15. What is long-term disability insurance?

_____

_____

16. *If your company has fewer than 10 employees, what is different about your group health insurance?*

_____

_____

_____

17. If your company has only a handful of employees, you should still usually provide workers compensation insurance.

True_____ False_____

18. Why does a business owner often have a special need for life insurance?

_____

_____

_____

CHAPTER SIXTEEN STUDY GUIDE

To complete Questions 1-6, you will need several blank sheets of paper.

1. On the top of the first sheet of paper, write "I Can Do". Then think about your school, work, community, and domestic experiences. List everything you have done well. Examples: organized a fund drive, built a cabin, coached a little league team, etc. List below the five things you did best or were most proud of:

   a. _____

   b. _____

   c. _____

   d. _____

   e. _____

2. Turn over the paper and list the skills you have developed over the years. It may help to list skill areas at the top of the page such as social, verbal, manual, domestic, organizational, problem solving, etc. and categorize your skills accordingly. Examples: I am convincing; I can examine the facts and make sound decisions. List below your five strongest skills.

   a. _____

   b. _____

   c. _____

   d. _____

   e. _____

3. On the top of a new sheet of paper, write "I Am". List as many adjectives or descriptive phrases as you can think of that characterize you as a person. Examples: I am dependable; I am impatient. Put a (+) in front of your positive characteristics and an (-) in front of the negative characteristics. List below what you would consider your five most important personal strengths.

a. _____

b. _____

c. _____

d. _____

e. _____

Then list two personal weaknesses you would like to improve:

a. _____
b. _____

4. On the top of a new sheet of paper, write "I Enjoy". Complete this phrase with a listing of things you like to do. In the space below, write down five things from your list you would like to do more of:

a. _____

b. _____

c. _____

d. _____

e. _____

5. On top of another sheet, write "I like People who...". Make a list to complete the phrase. Do the people you generally associate with in your daily life have these characteristics? List below the two that are most important to you.

a. _____

b. _____

6. Take out another sheet of paper. Make a list of things you would like to gain, possess or accomplish in your life. From your list, write down one goal for each of the following areas of your life:

Family: _____

Financial/Business/Professional: _____

Physical: _____

Social: _____

Mental/Intellectual: _____

7. Select one of the goals you identified in Question 6. Review Questions 1-4. What resources do you already have that will help you achieve this goal? What resources do you lack?

_____ _____

_____ _____

_____ _____

_____ _____

8. Outline a step-by-step procedure for achieving this goal. Estimate the time it will take to achieve the goal, and if applicable, each step in the process:

a. _____

b. _____

c. _____

d. _____

e. _____

f. _____

g. _____

h. _____

9. List two active steps you will take to help maintain a positive attitude:

a. _____

b. _____

10. Review your list of skills from Question 2. List five outlets for using these skills to benefit others.

a. _____

b. _____

c. _____

d. _____

e. _____

11. What steps can you take to manage your time more efficiently?

_____

_____

_____

12. Think of an unfortunate event in your recent past. How can you use it to benefit your future?

_____

_____

13. List five specific things you plan to do to improve your interpersonal relationships.

a. _____

b. _____

c. _____

d. _____

e. _____

14. How does your body tell you it is reaching the point of stress overload? What symptoms do you experience?

_____

_____

15. What are five things you routinely do to help you relax?

a. _____

b. _____

c. _____

d. _____

e. _____

16. List five specific things you plan to do to control stress in your daily life.

a. _____

b. _____

c. _____

d. _____

e. _____

CHAPTER SEVENTEEN STUDY GUIDE

1. Prepare a list of the activities you do now or will do for your business. Do not identify every task, but list the major items, such as making the product or rendering the service, invoicing, paying bills, answering the phone, making sales calls, etc. Be sure to include travel.

Task	Time	Task	Time

2. Go back through your list and estimate about how much time you devote to each item in an average week and write it in the blank beside the task.

3. Put a plus sign (+) by those items you feel could use more time than you are now able to give. Put a minus sign (-) by the ones you think you already spend too much time on.

4. From the items with minus signs above, develop a list of specific tasks which someone else could do for you, with proper training.

5. On a separate sheet, prepare a detailed job description for the job you need to fill.

6. Discuss how important employee contact with customers will be in the business you are considering.

_____

_____

_____

_____

_____

7. List eight ways you can find a potential new employee.

a. _____ e. _____

b. _____ f. _____

c. _____ g. _____

d. _____ h. _____

_____

8. What kind of information will you look for in a personal interview?

a. _____

b. _____

c. _____

d. _____

e. _____

f. _____

9. List the procedures to follow when conducting an interview. (Add extra items as you see fit.)

a. _____

b. _____

c. _____

d. _____

e. _____

f. _____

g. _____

h. _____

10. **Why would you want a prospective employee to call you as an interview follow-up rather than the other way around?**

_____

11. What are 3 goals of employee training?

a. _____

b. _____

c. _____

12. Why would you want to have your company rules and regulations in writing?

_____

_____

13. *What 6 general areas should you consider when writing your rules?*

a. _____ d. _____

b. _____ e. _____

c. _____ f. _____

14. **List the rules to follow in the proper disciplining of employees.**

a. _____

b. _____

c. _____

15. Which is better?

    a. Telling an employee off in front of other employees to really let it sink in.

    b. Praise the employee for something they did well before mentioning a problem that needs attention.

16. Praise for a job well-done encourages employees to do a good job and improve their self-image.

    True_____ False_____

17. List several ways you can give an employee a non-financial reward.

    a._____ c._____

    b._____ d._____

18. What information should go into an employee's folder?

    a._____ e._____

    b._____ f._____

    c._____ g._____

    d._____ h._____

19. Develop a training program, covering one year, for this new employee. Write your program on a separate sheet of paper.

CHAPTER EIGHTEEN STUDY GUIDE

1. What are the three main functions of a business plan?

_____

_____

_____

_____

2. What are the seven basic elements of a business plan?

_____

_____

_____

_____

_____

_____

_____

3. Write your principal business goal for the next year (or your first full year in business). Be sure it's specific, attainable and measurable.

_____

_____

_____

_____

4. Write three objectives that will help you accomplish the goal stated above.

a._____

b._____

c._____

5. Write at least two tasks that will help you accomplish each of the three objectives you named.

Objective 1:

Task: _____

Task: _____

Objective 2:

Task: _____

Task: _____

Objective 3:

Task: _____

Task: _____

CHAPTER NINETEEN STUDY GUIDE

1. Are you getting discouraged? If so, list the reasons or factors involved.

_____

_____

_____

_____

2. Based on the advice of this Lesson, what steps might you take to get yourself "up" again.

_____

_____

_____

_____

_____

3. Are you noticing any signs that might indicate you are in the wrong business? If so, what are they? (If not, move on to Question 4.)

_____

_____

_____

_____

4. What are the five reasons you're confident you have chosen the right business?

a. _____

b. _____

c. _____

d. _____

e. _____

5. What problems, if any, do you detect regarding your business professionals (CPA, attorney, etc.), potential partners or current employees?

6. Based on the guidelines of this Lesson, what mistakes did you make and how would you correct them?

7. What activities during the past 48 hours consumed more than 15 minutes each (itemize)?

8. How many of the activities listed in Question 7 contribute substantially to your productivity and business goals? Circle the ones that do.

9. Other than salaries and fixed overhead expense, what are five expense items you could reduce withour seriously affecting sales or productivity?

_____

_____

_____

_____

_____

10. In what way are your company money matters safeguarded against embezzlement and theft?

_____

_____

11. What "danger signs" can you look for regarding a disgruntled employee, shrinkage, bottlenecks and/or turnover? Specify.

_____

_____

_____

12. What could you do to correct problem(s)?

_____

_____

_____

_____

_____

13. What transaction can you recall in which you "won" in a compromise? How about one you "lost"? Describe both:

WON: _____

_____

_____

LOST: _____

_____

_____

14. What is your system of bookkeeping? Describe.

_____

_____

_____

_____

15. What is your system of accounting? Describe.

_____

_____

_____

_____

16. Do you currently use the A,B,C method of inventory control? The "nuts and bolts" method? Other? Explain?

_____

_____

_____

_____

_____

17. In what ways do you monitor and control the quality of your product or service?

18. In what ways might your market (your customers, their buying patterns/needs) change during the next three years?

19. Who are your top four competitors? How much of the "market" does each of you share?

20. In what ways have you used and/or might use the SBA?